

The Mayor
Zabbar Local Council
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16 August 2022

Dear Sir,

Financial statements for the year ended 31 December 2021

During the course of our audit for the year ended 31 December 2021, we have reviewed the accounting system and procedures operated by Zabbar Local Council (the “Council”). We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Reconciliation of books of accounts to financial statements

We are pleased to note that the book of accounts have been reconciled to the financial statements during the year.

1.2 Income

We are pleased to noted that we noted no issued to the LES income and accrued income of the Council during the year.

1.3 Expenditure

We are pleased to note that we have not encountered issues on the administrative expenses of the Council during the year.

1.4 Payroll

Wages' reconciliation

We are pleased to note that we have not noted any material differences in the FSS forms filed during the year.

1.5 Receivables

We are pleased to note that we have not identified any issues regarding receivable accounts including Wasteserv account during the year.

1.6 **Trade and other payables**

Trade payables

We noted that the Council again did not obtain statements at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account.

This is contrary to the relevant procedures, which require the Council to request monthly statements from all suppliers. Memos/circulars issued by the Department for Local Government specifically state that the Council should reconcile the creditors to supplier statements on a monthly basis.

PPP creditor

When testing the PPP creditor, we noted that the council failed to obtain the statement from the supplier. Provided that the 2017 statement showed a discrepancy of €37,874, and the fact that no statement has been obtained since then, we had to once again modify our audit report.

We acknowledge that the Council believes that the 2017 statement was not correct; however, we advise the Council to obtain a statement from the PPP creditor to review any differences and reconcile accordingly.

We also noted that the amounts in the unaudited financial statements differed from the amounts shown in the workings provided by the council as follows:

	Amounts in unaudited financial statements €	Amounts in council's working €	Difference €
Short-term	24,597	-	24,597
Trade Payables	-	24,597	(24,597)
Total	24,597	24,597	-

A reclassification was proposed to the council to show the amount of PPP creditor separately from trade payables. This reclassification was correctly incorporated in the audited financial statements.

Accruals

We are pleased to note that we have not noted any issues in accruals this year.

2 Fixed assets

2.1 Reconciliation of financial statements with accounting records

We identified several differences between the net book value (NBV) of certain classes of assets in the financial statements and the respective net book value in the nominal ledger. These are summarised in the table below:

Asset category	NBV in unaudited financial statements €	NBV in accounting records €	Difference €
Construction works	500,321	138,476	361,845
Furniture and fittings	42,138	23,348	18,790
Urban improvements	177,582	526,997	(349,415)
Office computer and equipment	15,063	28,104	(13,041)
Plant and machinery	3,128	15,052	(11,924)
Motor vehicles	9,387	10,220	(833)
Assets not yet capitalized	57,284	62,713	(5,429)
	804,903	804,910	(7)

We remind the Council that any variances between the assets disclosed in the financial statements and the nominal ledger need to be investigated and reclassified accordingly.

2.2 Details of fixed asset register

When reviewing the fixed asset register, we noted that certain details like invoice numbers and suppliers' details are missing.

We recommend that every possible effort should be made to update the fixed asset register and include at least the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation rate
- Location of the asset
- Grants received

2.3 Reconciliation of financial statements to fixed asset register

We have noted that the fixed asset register is not in agreement with the financial statements. The following are the variances noted:

Asset category	NBV in fixed asset register €	NBV in unaudited financial statements €	Difference €
Trees	39,201	12,766	26,435
Construction works	416,660	500,231	(83,571)
Furniture and fittings	43,809	42,138	1,671
Urban improvements	191,508	177,582	13,926
Office and computer equipment	12,300	15,063	(2,763)
Plant and machinery	4,235	3,128	1,107
Motor vehicles	9,803	9,387	416
Assets not yet capitalised	-	57,284	(57,284)
	<u>717,516</u>	<u>817,579</u>	<u>(100,063)</u>

The difference in the NBV results to a possible understatement of depreciation expenses amounting to an approximate amount of €7,096. Since this amount is only an approximation and cannot be ascertained based on the reconciliation made, no adjustment was proposed.

We recommend that the Council revisits the fixed asset register and ensures that this agrees to the books of account. This is to ensure that the fixed asset register is complete and that all classifications are included in their proper category. This is also to ensure that the correct depreciation expenses was computed and recorded during the year

3 Other Matters

3.1 Preparation of financial statements

We would like to point out that in accordance with the Department's communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards (IFRSs). While the Council have complied with the minimum requirements of the standards, we recommend that the Council maintains consistency in the preparation of the financial statements in the areas of note captions, alignment and referencing.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Ms Stephanie Testaferrata de Noto and the staff for their co-operation and assistance during the course of the audit.

Yours faithfully,



Mark Bugeja
Partner